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AUTHOR Ashmore, M. Catherine; Pritz, Sandra G.
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ABSTRACT

This unit on managing the finances of a small business, the 16th in a series of 18 modules, is on the second level of the revised PACE (Program for Acquiring Competence in Entrepreneurship) comprehensive curriculum. Geared to advanced secondary and beginning postsecondary or adult students, the modules provide an opportunity to learn about and try out entrepreneurship ideas so that students can make a preliminary assessment of how these ideas relate to personal needs. The units on this level contain detailed explanations of small business principles, suggestions on how to find information and use techniques, and encouragement for creating a future business. Students completing this unit should be able to perform these competencies: (1) identify various components of balance sheet reports, (2) identify terms/concepts commonly used on small business balance sheets, (3) identify components of profit and loss statements, (4) analyze uses of various depreciation schedules, and (5) describe how to prepare a cash forecast. The unit is organized into five sections. Following a preliminary section on how to use the unit (with vocabulary and a review of the objectives for this topic on level 1), the unit's information is presented in question-and-answer format. Individual and group activities, an assessment to be completed with the teacher, and sources used to develop the unit follow. A list of the modules of Revised PACE, Level 2 completes the unit. (KC)

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PACE
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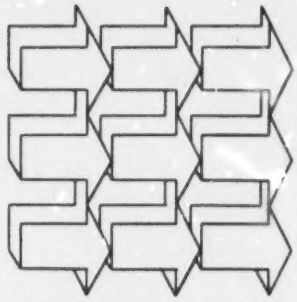

UNIT 16

☐ Level 1
☑ Level 2
☐ Level 3

Managing the Finances

Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **Identify various components of balance sheet reports.**
- **Identify terms/concepts commonly used on small business balance sheets.**
- **Identify various components of profit and loss statements.**
- **Analyze uses of various depreciation schedules.**
- **Describe how to prepare a cash forecast.**

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BEFORE YOU BEGIN. . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Level 1:

   - Explain the importance of financial management.
   - Describe the components of a balance sheet.
   - Differentiate between current and fixed assets—current and fixed liabilities.
   - Describe the components of a profit and loss statement.
   - Identify methods for calculating selected financial ratios.
   - Identify sources of financial ratio data.
   - Identify the activities associated with electronic data processing and financial analysis.

   If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the *Resource Guide*.

asset convertibility
cash forecast
cost of goods sold
current assets
current liabilities
declining balance
depreciation
gross billings
gross margin
gross profit
gross sales
intangible assets
liability maturity
long-term liability
net profit
net sales
net worth
operating expenses
selling expenses
straight line depreciation
sum of the digits depreciation

MANAGING THE FINANCES

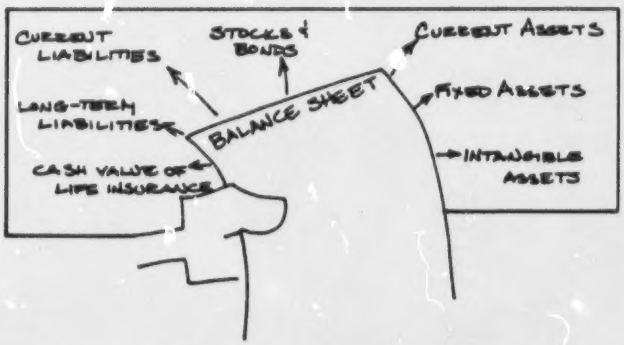
WHAT IS THIS UNIT ABOUT?

Most companies and firms of significant size have sophisticated tools, techniques, and personnel to oversee the financial affairs of the business. This is not the case for the typical owner of a small business. As the owner of a small business, you will need to use basic accounting statements that reflect the results of the business operation. Even if you have your financial statements prepared by an accountant, you should understand how they are put together, what they tell you, and some of the ways in which you can use them.

Financial management may involve the following functions:

- Analyzing the components of the balance sheet and profit and loss statements.
- Calculating various types of depreciation allowances.
- Determining the cash flow needs of the firm.

Some basic accounting tools will help put you in financial control of your business. The balance sheet and the profit and loss statement are two financial statements you will need to thoroughly understand and analyze. In this unit you will study components of these statements in more detail. In addition, you will learn how to determine cash flow needs and how to do computations to determine the break-even point.



WHAT ARE THE COMPONENTS OF THE BALANCE SHEET?

The *balance sheet* gives you a picture of what your business owns and owes at a certain time. It is a "photograph" of your company's assets, liabilities, and net worth. Assets and liabilities are balance sheet items reported at their current value. Net worth reflects the owner's investment in the business.

This financial statement must balance. That is, assets must equal liabilities plus net worth, or the total of those items on the left side under assets must exactly equal the total of the right side under liabilities and net worth.

Table 1 illustrates a balance sheet suitable for the entrepreneur just starting in business. This format can be used by sole proprietorships, partners, or corporations.

TABLE 1

BALANCE SHEET

ASSETS		LIABILITIES	
Current —	Cash	Current —	Notes Payable
	Merchandise Inventory		Accounts Payable
	Accounts Receivable		
			Long-Term Liabilities
Fixed —	Land		Debts
	Building		(More than One-Year Maturity)
	Machinery		
	Equipment		
			OWNERSHIP OR NET WORTH
Intangible —	Goodwill		
	Franchise		Proprietorship Net Worth
	Patents and		or
	Copyright		Partnership Net Worth
			or
Other —	Cash Value of Life		Corporate Net Worth
	Insurance		
Total Assets			Total Liabilities Plus Net Worth

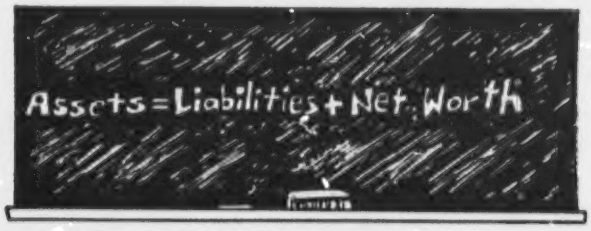
WHAT ARE ASSETS?

Assets are balance sheet entries that show what your business owns. Assets can be categorized as current, fixed, intangible, or other. These categories are based on the availability of items; that is, the length of time it takes to convert them to cash. These categories can help you to control your business, and they describe your assets. To guide management of the business, you should analyze and compare each item in a consistent, meaningful way. These comparisons will reflect changes in the financial picture of your business over a period of time. You want your business to have an effective inventory policy and maintain capital investment that has a proper balance of fixed and current assets. Therefore, a realistic and accurate picture of what your business owns should always be available.

Current assets are those assets that, in the normal course of business, are expected to be converted into cash within twelve months. The reason for the twelve-month rule is twofold. First, most business managers consider twelve months a normal cycle for their business. Second, state and local tax returns are filed on an annual basis.

When you are assigning assets to this category, ask yourself this question: "What is the likelihood that this asset will be converted into cash within twelve months?" Merchandise and accounts receivable are normally defined as current assets on a balance sheet. However, using the twelve-month rule, it is possible that a portion of either one of these categories may not be considered a current asset. Suppose someone owes your business some money and you are carrying the amount due as part of your accounts receivable. To make the sale, you

may have agreed that payment will not be due for eighteen months. The sale will not be turned into cash within the twelve-month period. Or, suppose your firm has some inventory that, because of its nature, is either seasonal or currently out of style. If you estimate that it will be more than twelve months before a sale can be made, then this item of merchandise should be treated as another type of asset and not as a current asset.



Fixed assets are assets which are used over a period of several years of normal operations. Generally, they are used to help convert current assets into cash. For example, a retailer operates a business from a building he or she owns. The building is an investment which houses the retailer's inventory. Because the building has a useful life of more than twelve months, it is an asset of a more permanent nature than inventory or accounts receivable.

When looking at a balance sheet that has only fixed assets, remember that the value of the fixed assets may be based on cost less any depreciation. A more realistic estimate of worth may be the market value or the value it would take to replace the fixed assets.

The examples listed in Table 1 are probably the three most common *intangible assets* that a small business can have. Goodwill is the value that a business gains from customers, image in the community, or reputation of servicing the public. Determining a value for it is arbitrary. However, if you were to purchase an operating business, most likely a portion of the purchase price would be for this intangible asset. Other common examples of intangible assets are franchise fees, patents, and copyrights, which are tangible only in that a legal document says they exist.

Other assets is a miscellaneous category of assets. If an asset is not current, fixed, or intangible, it should be included in the "other assets" category. The asset most commonly found in this category is the cash value of life insurance. This value is your "equity" in or "ownership" of an ordinary life insurance policy purchased for yourself. As you pay premiums over the life of the policy, a certain cash value builds and is available to you as a loan from a bank or the insurance company.

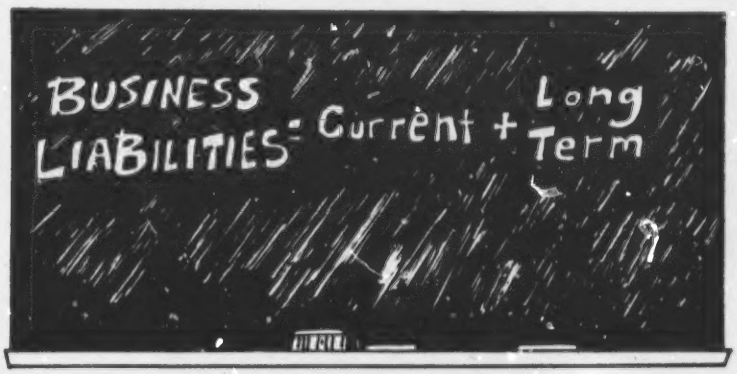
Other assets may also include accounts receivable (other debts due to you that are not current), and investments such as stocks and bonds that you may have in other companies.

WHAT ARE LIABILITIES?

Business liabilities express the cash value of what you owe to others. They are closely tied to business assets. Liabilities are debts incurred by the business to acquire assets. Liabilities are classified either as current liabilities or long-term liabilities.

A *current liability* is an obligation you owe to some individual or firm which will be paid by a current asset. Usually, a current liability matures or comes due within twelve months. These liabilities are debts that are due within one year, to be paid with cash assets or assets which will be converted into cash within ninety days.

The most common type of current liability is *accounts payable.* When you order and receive merchandise or services, you incur a debt that usually will have to be paid within one year. This debt is considered an account payable in that it is due on account to your suppliers.



Other types of current liabilities are *witholding and social security taxes payable.* These are liabilities that cause business owners some problems. Money witheld from your salary and your employees' salaries in the form of payroll and income taxes must be submitted to federal, state, and local governments within specified time periods, usually quarterly. Some businesses that are short on funds will use this money for operating expenses. This may place them in difficulty with the Internal Revenue Service or other taxing authorities.

Another common type of current liability is the part of a long-term debt that is due within one year. Examples of this type of current liability include the present year's payment due on mortgages and long-term notes.

Long-term liabilities are those debts that are due after twelve months of maturity. They normally consist of real estate mortgages, long-term loans, and similar obligations. Usually the funds obtained from incurring debts of this type are used to purchase buildings, equipment, and other fixed assets.

WHAT IS NET WORTH?

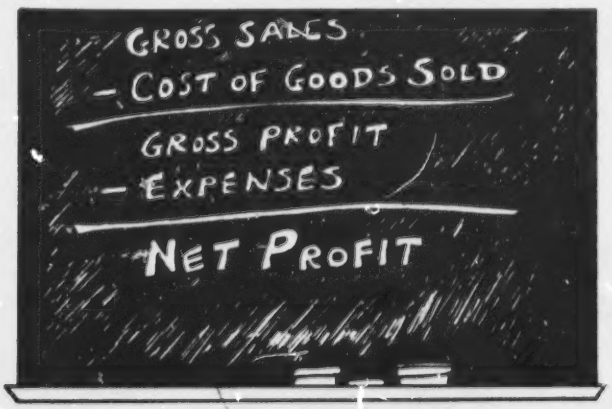
The *net worth* entry reflects the owner's equity or investment in the business. These assets are acquired either by incurring a debt or with

funds invested by the owner. The net worth entry on a balance sheet of a sole proprietorship states the owner's investment in the business. The net worth entry for a partnership states each partner's investment separately.

The main function of the ownership or net worth entry is to act as a cushion for possible losses. As far as creditors are concerned, the net worth is a protection in case of nonpayment of debt. Businesses that fail often end up with a net worth that is negative. This means that the creditors not only have a claim on all the assets, but also that after all assets are converted to cash, not enough funds remain to pay off the debts.

WHAT IS A PROFIT AND LOSS STATEMENT?

A *profit and loss statement* is a financial statement that reflects the income and expenses of a business over a period of time. This contrasts with the balance sheet, which gives the financial picture of a business as of a given date. It contains a limited amount of information and does not show how efficiently the assets of the business are being used. The profit and loss statement is truly an operating record which provides you with measures of your efficiency and ability to make a profit. Table 2 (shown on the following page) is a profit and loss statement suitable for the person who is just starting a business.



WHAT ARE THE COMPONENTS OF A PROFIT AND LOSS STATEMENT?

The profit and loss statement is usually composed of—

- gross sales,
- the cost of goods sold,
- the gross profit on sales,
- expenses,
- net profit.

Probably the most important component is *gross sales*. For a typical retail business, this component is the basic source of revenue. It consists of total revenues received from sales for the year.

This item is adjusted to arrive at a *net sales* figure by deducting returned merchandise or allowances for spoiled or damaged merchandise.

TABLE 2

PROFIT AND LOSS STATEMENT

Gross Sales	_____
– Less Returns and Allowances	
Net Sales	_____
Cost of Goods Sold:	
Beginning Inventory	_____
Plus Purchases and Freight	_____
Minus Ending Inventory	_____
Gross Profit or Margin on Sales (Net Sales Minus Total Cost of Goods Sold)	_____
– Selling Expenses	_____
– Operating Expenses	_____
Net Profit of Business	_____

If the business sells services rather than merchandise, this category is labeled gross billings.

The second component, the *cost of goods sold*, is the cost of the goods or services that your firm sells. It does not include other expenses of doing business. This is the total price paid for the products sold during the accounting period plus transportation costs.

After you have found the net sales and the cost of goods sold, it is possible to calculate the *gross profit* or gross margin on sales. The gross margin equals sales less the cost of the sales. This is really the dollar portion of your sales that represents your markup on the inventory.

You may analyze your profit and loss statement and find that your profits are not as much as you'd like them to be. You can either increase your margin (or markup) on your existing sales volume, or try to increase the sales volume on the same margin. Increasing the markup may reduce volume, resulting in no net change. Increasing sales volume on the same margin is difficult. It might add advertising or other costs that will use up any profit realized. Gross margin does not take selling or operating expenses into account.

The fourth component includes two categories of *expenses*: (1) selling, and (2) other operating expenses. These are important expenses in most businesses.

Selling expenses are those expenses for activities performed to increase the sales volume. They include—

- salespersons' salaries,
- travel expenses for salespeople,
- delivery expenses, and
- advertising.

Operating expenses are those expenses made to operate and administer the business. They include—

- office expenses,
- salaries,
- accounting expenses,
- telephone expenses
- expenses for equipment repairs, and
- depreciation of equipment and buildings.

In short, operating expenses include any expense that is not directly due to sales or service activities and is considered an overhead expense.

The last component of a profit and loss statement is *net profit*. The net profit of the business is what is left after all normal costs and expenses for the accounting period have been deducted. Net profit is the "bottom line" that summarizes the results of your business. For example, subtracting total selling expenses from gross profit on sales gives the net profit on sales. Net profit on sales shows the profit from all buying and selling activities (before allowances are made for the general overhead costs).

Net profit does not reflect any income taxes because income taxes are not considered a normal operating expense. If you are operating a sole proprietorship, net profit from your business is considered income on your individual federal income tax return.

HOW DO PROFIT AND LOSS STATEMENTS VARY ACROSS TYPES OF BUSINESSES?

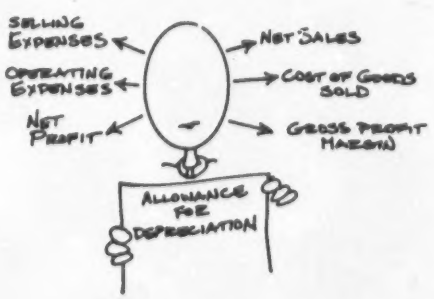
Because small manufacturers convert raw materials into finished goods, the method of accounting for cost of goods sold differs from the method used by wholesalers, retailers, and service firms. As in retailing and wholesaling, computing the cost of goods sold during the accounting period involves beginning and ending inventories, and purchases made during the accounting period. But in manufacturing, it involves not only finished goods inventories, but also several other costs.

A profit and loss statement for a typical small manufacturing company includes—

- Raw materials—the materials that become a part of the finished product,
- Direct labor—labor applied directly to the actual process of converting raw materials into finished products,
- Manufacturing overhead—depreciation, utilities, insurance, real estate taxes, and the wages of supervisors and others who do not work directly on the product, and so on. This last term should include all manufacturing costs other than raw materials and direct labor.

WHAT ARE SOME METHODS OF ACCOUNTING FOR DEPRECIATION?

The cost of certain tangible fixed assets is spread over their useful life through periodic depreciation charges to an expense account. Corresponding credits to a valuation account commonly entitled *Allowance for Depreciation* are also made. The total amount charged to expense may not exceed the total cost of the asset (purchase price) less any net salvage value (sale or trade-in price) that the asset is expected to have at the end of its useful life. To determine the net salvage value, deduct estimated removal costs from expected sale proceeds.



Four methods of depreciation are described here. Certain other methods are occasionally used in practice.

HOW IS STRAIGHT-LINE DEPRECIATION COMPUTED?

The *straight-line* method of computing depreciation is perhaps the most widely used. In it, the same amount of depreciation is recorded for each year (or other accounting period) over the useful life of the asset. To obtain the annual depreciation, the acquisition cost less the expected net salvage value is divided by the expected life in years. This may be expressed by the following formula.

$$\text{Annual Depreciation} = \frac{\text{Acquisition Cost} - \text{Net Salvage Value}}{\text{Useful Life in Years}}$$

Suppose that the office machine acquired by Ashton & Barker at a total cost of $400 is expected to be used for five years and to have a trade-in or salvage value at the end of that time of $40. The result of substituting these figures in the equation is as follows:

$$\frac{\$400 - \$40}{5} = 72 \text{ (Annual Depreciation)}$$

HOW IS DECLINING BALANCE DEPRECIATION COMPUTED?

In the *declining-balance* method, an appropriate percentage of the total value of the item is applied to the net book value of the item at the beginning of the year to obtain the depreciation charge for that year. The maximum percentage allowable for income tax purposes (and therefore widely used by business firms) is twice the rate that the straight-line method uses. The straight-line method was applied to the postage machine illustrated in table 3. The machine had an expected useful life of five years. The depreciation was 1/5 or 20 percent of the cost (minus salvage value) each year. The declining-balance rate allowable on this same item is twice 20 percent, or 40 percent. (The tax regulations are that salvage value is to be ignored.) In the first year, the acquisition cost of $400 would be multiplied by 40 percent to yield $160 depreciation expense for that year. The book value at the beginning of the second year would be $240 ($400 - $160) and the depreciation for the second year would be $96 (40 percent of $240). In tabular form, the depreciation under the declining-balance method for the five years can be illustrated as follows:

TABLE 3

DECLINING BALANCE METHOD OF DEPRECIATION

Year	Beginning Book Value	Rate	Depreciation for Year	Depreciation to Date
1	$400,00	40%	$160.00	$160.00
2	240.00	40%	96.00	256.00
3	144.00	40%	57.60	313.60
4	86.40	40%	34.56	348.16
5	51.84	40%	20.74	368.90

Ending Book Value = $31.10

Although no salvage value is used in figuring the annual depreciation, there remains at the end of five years a net book value of $31.10—only slightly less than the $40 estimated salvage value used in the straight-line method.

HOW IS THE SUM OF THE YEARS-DIGITS DEPRECIATION COMPUTED?

Under the sum of the years-digits method, a fractional part of the cost of the asset is charged to expense each year. The denominator of the fraction is always the "sum of the years-digits." The sum of the years-digits is found by adding the numbers for each year of the asset's life. For example, the digits of the years of life of a machine expected to last 5 years are: 1, 2, 3, 4 and 5. Thus, the sum of the years-digits is 1 + 2 + 3 + 4 + 5, or 15. The numerator for any year is the number of years of remaining life of the asset. Thus, for the first year the fraction is 5/15; the second year it is 4/15; and so on. The fraction is applied to the acquisition cost minus the salvage value, in this case $400 - $40, or $360.

In table 4 the results of applying this method are listed and compared with the two methods previously illustrated.

TABLE 4

SUM OF THE YEARS-DIGITS METHOD OF DEPRECIATION

Year	Fraction	Cost Minus Salvage	Depreciation for Year	Declining Balance Method	Straight-Line Method
1	5/15	$360.00	$120.00	$160.00	$ 72.00
2	4/15	360.00	96.00	96.00	72.00
3	3/15	360.00	72.00	57.60	72.00
4	2/15	360.00	48.00	34.56	72.00
5	1/15	360.00	24.00	20.74	72.00
Total Depreciation—5 years			$360.00	$368.90	$360.00
Net Book Value—End of 5 years			$ 40.00	$ 31.10	$ 40.00

Note that the declining balance and sum of the years-digits methods both give higher depreciation charges in the earlier years of the asset life and lower charges in the later years. These two methods are sometimes called accelerated methods. For income tax reporting purposes, a change may be made from the declining-balance method to the straight-line method (for the remaining balance) at any time; but any other change in depreciation method may not be made without the written permission of the tax authorities. A business may use several different depreciation methods at the same time for different assets or groups of assets.

WHY IS A CASH FORECAST NECESSARY?

In addition to preparing and analyzing balance sheets, profit and loss statements, and depreciation schedules, it is necessary to prepare cash forecasts. Cash planning and forecasting the future cash needs of the business are vital for survival. Unless cash needs are foreseen and

provided for, there is a good chance the business will not be able to meet its commitments.

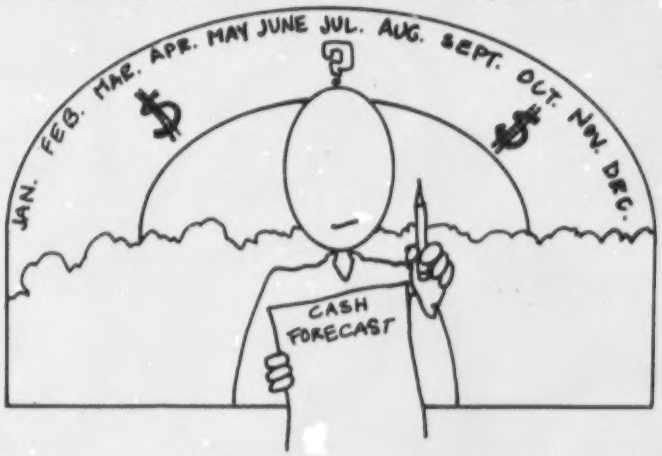
Too much cash on hand shows that the owner is not alert to opportunities for wise use of surplus cash. Large amounts of cash which will not be used right away should be invested where the cash will earn money for the business.

HOW IS A CASH FORECAST PREPARED?

Figures used in the cash forecast are expected cash receipts and payments. Forecasting is not mere guesswork, but is based on past experience and knowledge of performance of similar businesses. For example, the expected cash sales figure for a certain month is arrived at by comparing that month's sales figures for previous years, and considering price and market trends for the period.

Cash forecasts can be compiled for a three-month period. Each month the figures are revised as they are compared with actual results. The cash forecast should always be three months ahead of current operations.

An example of a cash forecast is illustrated in table 5 (as shown on the following page). The projected accounts receivable figure for January ($2,000) was determined in part by the firm's credit policy and by what past experience has shown will be paid by customers.



The firm's credit policy is that all charge purchases are to be paid within one month. December credit sales totaled $2,400. Experience shows that only $2,000 of this amount will be received in January.

The January sales forecast is for $4,000 in total sales. It is estimated that $1,300 of that total will be cash sales, and $2,700 will be credit sales. Since one month's credit is given to credit customers, no payments will be expected from January credit sales until February. Experience shows that about $2,200 of the $2,700 in credit sales for January will be collected in February.

HOW CAN MICROCOMPUTERS AID FINANCIAL MANAGEMENT?

Many businesses find the best solution to their information processing and financial analysis requirements to be a combination of manual and electronic methods. With the increasing availability of low-cost,

TABLE 5

CASH FORECAST

	January		February		March	
	Forecast	Actual	Forecast	Actual	Forecast	Actual
Expected Cash Receipts:						
1. Cash sales	$1,300		$1,400			
2. Collections on accounts receivable	2,000		2,200			
3. Other income	---		---			
A. Total Cash Receipts	$3,300		$3,600			
Expected Cash Payments:						
4. Disbursements on accounts payable	$1,000		$1,550			
5. Utilities	100		100			
6. Payroll	1,000		1,000			
7. Advertising	1,300		1,000			
8. Other (taxes, etc.)	50		150			
B. Total Cash Payments	$3,450		$3,800			
9. Expected cash balance at beginning of month	$7,000		$3,850			
10. Cash increase or decrease (A - B)	−150		−200			
11. Expected cash balance at end of month	6,850		3,650			
12. Desired cash balance	$3,850		$3,850			
13. Short-term loan needed (12-11, if 12 is greater			$ 200			
14. Cash available for short-term investment (11-12, if 11 is greater)	$3,000					

efficient microcomputers, however, managers/owners are converting manual information processing to computerized operations. Any tedious, repetitive, and costly financial information recording task that involves processing of information in a predetermined way is a candidate for computerization.

The use of microcomputers can assist in financial control and analysis for a business. A microcomputer has been described as a complete information processing system which includes an information processor, an information memory, a program ("software" or a set of directions), and a power supply.

Sometimes a manager/owner is reluctant to use a computerized system to analyze or manage the financial aspects of a business. This reluctance may be due to a feeling of inadequacy, inexperience, or lack of knowledge. Recently, new software programs such as VisiCalc, SuperCalc, T-Maker II, and TARGET, have been developed. These financial analysis programs are designed for nontechnical users.

The beauty of these types of programs is that they can work with dozens of variables and hundreds of assumptions. The results: a ten-year income and cash-flow statement for a proposed shopping mall; a three-year profit- and loss statement for a retail store selling hundreds of items; a cost-efficiency study of a ten-person firm, or just about any other projections or analyses that you can dream up.

Other types of microcomputer programs are available for financial analysis and management. Programs pertaining to productivity, payroll, investments, inventory control, ratio analysis, and so forth may be obtained from commercial sources. A potential user of such programs should contact a reputable microcomputer supplier; review microcomputer periodicals, and texts; or consult with manager/owners using microcomputers in similar businesses.

ACTIVITIES

Do you feel knowledgeable enough about what it takes to become an entrepreneur? Will you be able to put some of the skills into practice? The following activities will help you experience some of the real-life situations of entrepreneurs.

INDIVIDUAL ACTIVITY

Prepare a Profit and Loss Statement using the following information. Compute the net profit or loss for this business. Record the information on a Profit and Loss Statement obtained from your instructor.

The following transactions occurred during the year:

1. Sales during the year were $260,000.
2. $10,000 of the merchandise that the customers had bought was returned.
3. Beginning inventory was $40,625.
4. Purchases during the year amounted to $169,000.
5. Ending inventory was $50,000.
6. Employees' wages and salaries paid during the year amounted to $19,600.
7. Advertising expenses were $2,000.
8. Miscellaneous expenses equalled $1,500.
9. Rent expenses were $2,400.
10. Owner's salary was $15,000.
11. Paid annual insurance premium of $200.
12. Interest expenses were $10,800.
13. Depreciation expenses were $6,500.

INDIVIDUAL ACTIVITY

Prepare a Balance Sheet using the following information. Record the information on a Balance Sheet obtained from your instructor. Compute the owner's equity in the business as of December 31, 19--.

The following transactions occurred during the year:

1. Cash on hand at the end of the year was $14,475.
2. The ending inventory was $50,000.
3. Accounts receivable were $75,000.
4. Store fixtures and equipment were $60,000.

5. Depreciation on store fixtures and equipment was $5,500.
6. A delivery truck was purchased for $7,000, and depreciation for the first year was $1,000
7. Accounts payable totaled $169,000.
8. Accrued wages to employees were $2,600.
9. A note payable of $10,000 was outstanding.

GROUP ACTIVITY

In a group of two to three individuals, develop a one-month projected profit and loss statement for a small business of your choice. Identify all the possible expenses that you believe this business could have. Review reference materials available from your instructor to determine possible types of business expenses. Refer to example Profit and Loss Statements available from Small Business Administration publications, accounting texts, and small business firms in your community. Project extimated revenues, expenses, and profits for the one-month period. Compare your projections with those of other class members.

ASSESSMENT

Directions: Read the following assessment questions. When you feel prepared to respond to them, ask your instructor to assess your competency on them.

1. List three important functions of financial management.
2. Identify the time span within which current assets are expected to be converted into cash.
3. Identify the realistic value that should be placed upon fixed assets.
4. List three examples of intangible assets.
5. Identify the time period within which a current liability matures (or comes due).
6. Describe how gross margin is computed.
7. Differentiate between selling expenses and operating expenses.
8. List three different entries that would be recorded on a manufacturer's profit and loss statement.
9. Describe how a cash forecast can be prepared.
10. List three different types of depreciation schedules.

NOTES

[1]The Robert Morris Associates. *Annual Statement Studies.* Philadelphia: The Robert Morris Associates.

[2]Brock, Horace R.; Palmer, Charles E.; and Archer, Fred C. *Accounting: Basic Principles.* 3d ed. New York: McGraw-Hill Book Co., 1974.

[3]Dun and Bradstreet. *Key Business Ratios.* New York: Dun and Bradstreet, 1981.

[4]Krentzman, Harvey C.; White, L.T.; and Schabacker, Joseph C. *Techniques and Strategies for Effective Small Business Management.* Fairfield, CA; The Entrepreneur Press, 1979., pp. 98-101.

[5]Nelson, R.E.; Leach, J.A.; and Scanlan, T.J. *Owning and Operating a Small Business.* Springfield, IL: State Board of Education, Illinois Office of Education, 1976.

[6]*Understanding Financial Statements.* Small Business Reporter Series, San Francisco: Bank of America, 1980.

We thank the above authors for permission to reprint from their work.

OTHER SOURCES USED TO DEVELOP THIS UNIT

Broom, H.N., and Longenecker, J.G. *Small Business Management.* 5th ed. Cincinnati, OH: South-Western Publishing Co., 1979.

Ely, V.K., and Barnes, M.T. *Starting Your Own Marketing Business.* New York: McGraw-Hill Book Co., 1978.

Everard, K.E., and Shilt, B.A. *Business Principles and Management.* Cincinnati, OH: South-Western Publishing Co., 1979.

Ferner, J.D. *Successful Time Management.* New York: John Wiley & Sons, 1980.

Hodgetts, R.M. *Effective Small Business Management.* New York: Academic Press, 1982.

For further information, consult the lists of additional sources in the *Resource Guide.*

Level 2

PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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